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TO RUEHC/SECSTATE WASHDC PRIORITY 5739
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RUEHSD/MOSCOW POLITICAL COLLECTIVE PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 003078

SIPDIS

DEPT FOR EUR/RUS
NSC FOR MMCFAUL
DOC FOR JBROUGHER

E.O. 12958: DECL: 12/22/2019
TAGS: [E](#)[A](#)[I](#)[R](#) [E](#)[I](#)[N](#)[V](#) [E](#)[T](#)[R](#)[D](#) [R](#)[S](#)
SUBJECT: EX-IM BANK SUPPORT OF BOEING'S BID FOR ROSAVIA
TENDER AND OTHER PROJECTS

Classified By: Ambassador John R. Beyrle for reasons 1.4 (b,d)

SUMMARY

11. (C) On December 16, Ex-Im Bank Board Member Bijan Kian met with Rostekhnologiiya Director General Sergei Chemezov to discuss the possibility of U.S.-backed financing for the possible sale of Boeing aircraft to Rostekhnologiiya's aviation holding, RosAvia. Chemezov said the purchase decision will be delayed at least until the end of January in order to study Airbus' recently resubmitted proposal. Chemezov hinted strongly that Boeing aircraft would be purchased, but did not indicate how many. Kian and Chemezov also agreed that discussions with Ex-Im Bank about financing could take place in advance of a final decision. Kian reiterated that the Ex-Im Bank is open for business in Russia, and inquired about other business opportunities within Rostekhnologiiya's vast structure, including possible joint ventures in machine tools manufacturing and IT. End Summary.

Delay in Final Decision over Boeing/Airbus Purchase

12. (C) On December 16, Ex-Im Bank Board Member Bijan Kian and the Ambassador met with Director General of Russian Technologies State Corporation (Rostekhnologiiya) to discuss the possibility of Ex-Im Bank financing should Boeing win the tender of RosAvia (the aviation holding company under Rostekhnologiiya's umbrella) for the lease/purchase of up to 50 narrow-bodied aircraft (737). Kian, who had already discussed the possibility of Ex-Im Bank-supported financing with Deputy Prime Minister Shuvalov in September, reaffirmed Ex-Im Bank's support to Chemezov. Chemezov indicated that the final decision to purchase aircraft would be made at the end of January 2010. While the decision was supposed to be announced on December 18, Chemezov explained that Airbus had recently re-submitted a "more attractive" proposal and Rostekhnologiiya needed time to review it. Chemezov said he had informed Boeing CEO Jim McNerney about the delay in the decision. He surmised that Rostekhnologiiya would be able to discuss a final offer with Boeing in the beginning of February 2010. He hinted strongly that Rostekhnologiiya would purchase Boeing aircraft -- we have heard this will probably be in a mix with Airbus -- and that the deal could be the commercial centerpiece of President Medvedev's planned trip to the U.S. in March 2010 (with Chemezov accompanying).

13. (C) (Note: Chemezov's explanation for the delay in Rostekhnologiiya's decision differs from what Boeing reps told Embassy several days earlier. Boeing indicated that RosAvia was working to finalize the structure of the new airline before proceeding with any aircraft purchase and that would

likely cause the delay. However, Chemezov indicated that the restructuring of RosAvia as an independent "juridical person" had been completed, and the company's core consisted of eight regional airline companies. (It was interesting to note that the City of Moscow-owned Atlant-Soyuz was not mentioned as one of the airlines.) Currently, RosAvia is registered as "Aviacompania" (headed by the former Deputy Minister of Transportation, Boris Korol) since in order to use the "Ros" prefix, the company must work through a number of time consuming registration processes. Chemezov also noted that Boeing had the option of leasing the aircraft to RosAvia, or Rostekhnologiya (the parent company) could procure directly from Boeing. End note).

14. (SBU) Kian assured Chemezov that Ex-Im Bank stood ready to take action as soon as a decision was made. Chemezov noted that Rostekhnologiya could begin working with Ex-Im Bank on financing even in advance of a final decision and Kian agreed. Chemezov said that Rostekhnologiya Deputy Director Zavyalov (also present at the meeting) would negotiate on behalf of Rostekhnologii. Kian responded that Robert Morin, Vice President of Ex-Im Bank's Transportation Division (and well known to Chemezov and his staff) would be the bank's key contact for the Boeing project. In response to Chemezov's question on whether Ex-Im Bank had a local representative, Kian indicated that FCS would be the main contact for Rostekhnologiya, but Ex-Im Bank reps would be willing to travel to Moscow for meetings.

Other Business Opportunities for Ex-Im Bank

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15. (SBU) Kian stressed that Ex-Im Bank was "open for business in Russia." He said that the bank looked forward to establishing a cooperative relationship with Rostekhnologiya and wanted, with Embassy assistance, to explore business opportunities with Rostekhnologiya's constituent companies. Chemezov noted that Rostekhnologiya was planning a joint venture with the Cincinnati-based MAG for the production of machine tools. (Note: FCS is in the process of gathering more information on this deal. End note). Zavyalov added that all Rostekhnologiya enterprises had targets for equipment and technology upgrades using the joint venture model. According to Zavyalov, the Boeing deal would be the prototype for Rostekhnologiya's upgrade program.

16. (SBU) Chemezov briefly discussed Rostekhnologiya's activities in the IT sector. One of the corporation's daughter companies, "Skartel," is working on 4G web access. Currently, there is a pilot project in Moscow and Saint Petersburg, with Kazan and Ufa soon to be added. Working with Samsung, Rostekhnologiya is developing the software, using hardware made in Taiwan. The goal is to have the 4G network up and running in time for the Sochi 2014 Winter Olympic Games. Kian suggested involving the Trade Development Agency as TDA could be helpful in financing feasibility studies for this and other Rostekhnologiya projects. (Note: Kian has contacted TDA and is waiting for feedback on how TDA can be involved.)

Inside the Beast

17. (C) At Kian's behest, Chemezov described the structure of Rostekhnologiya, which consists of 546 companies and over one million employees. The corporation is divided into 26 holding companies, 19 of which are defense related. The remaining seven holdings are non-defense, including such industries as metallurgy, automobile manufacturing (Avtovaz), biotech, pharmaceuticals and medical equipment. Chemezov mentioned that Rostekhnologiya had contracts with a French firm to develop weapons for sale to third countries. He said that Rostekhnologiya also has had discussions with the Pentagon for co-manufacturing military hardware for use in

Iraq and Afghanistan. (Kian explained that Ex-Im Bank was prohibited from financing defense related projects.)

Comment

18. (C) The Boeing-VSMPO JV and the successful test flight of Boeing's "Dreamliner" (using Russian manufactured titanium components) have received a lot of attention in the Russian media; Kian and the Ambassador were interviewed by a major Russian news channel right after the Chemezov meeting, and highlighted the Russian-American cooperative aspects of the flight. Both the Ambassador and Chemezov indicated that a successful Rosavia/Boeing deal would give commercial substance to the reset in U.S.-Russia relations. Kian's meetings with Chemezov and other high level Russian officials left no doubt that Ex-Im Bank is enthusiastic about developing opportunities for U.S. business here. End comment. Beyrle